



MANDALAY RESOURCES

Management's Discussion and Analysis

For the quarter ended September 30, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the quarter ended September 30, 2015, and the Company's annual information form dated March 31, 2015 (the "AIF"), as well as other information relating to the Company on file with the Canadian provincial securities regulatory authorities on SEDAR at www.sedar.com. The Company's reporting currency is the United States ("U.S.") dollar and all amounts in this MD&A are expressed in U.S. dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS").

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

This MD&A contains forward-looking statements. Please refer to "Cautionary Statement Regarding Forward Looking Statements" at the end of this MD&A for a discussion of some of the risks and uncertainties associated with forward-looking statements.

This MD&A contains reference to non-IFRS measures. Please refer to Section 1.16 "Non-IFRS Measures" at the end of this MD&A for the list of these measures and their definitions.

THIRD QUARTER 2015 FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

- Quantities of metal sold during the quarter were 25,392 ounces ("oz") of gold ("Au"), 677,152 oz of silver ("Ag") and 916 tonnes ("t") of antimony ("Sb") compared to 16,106 oz Au, 467,606 oz Ag and 852 t Sb in the third quarter of 2014.
- In gold equivalent ounces, Mandalay's sales in the third quarter totaled 39,987 oz of gold equivalent ("Au Eq.") versus 29,572 oz of Au Eq. in the same period in 2014.
- Prices realized during the quarter were \$1,109 per oz for Au, \$14.16 per oz for Ag and \$6,053 per t for Sb in 2015 versus \$1,224 per oz for Au, \$15.43 per oz for Ag and \$9,090 per t for Sb in the same period in 2014 (9% lower price for Au, 8% lower for Ag and 33% lower for Sb).
- Revenues in the quarter were \$43.3 million, including favorable revenue adjustments of \$0.5 million related to open sales contracts from prior quarters, compared with revenues of \$34.7 million in the third quarter of 2014, including adverse revenue adjustments of \$0.6 million related to open sales contracts for the prior quarters.

- Despite lower metal prices, income from mining operations before depletion and depreciation was \$14.3 million in the third quarter of 2015 compared with \$13.5 million in the third quarter of 2014. This largely reflects the contribution of Björkdal's income and significantly lower costs at Costerfield in the current quarter.
- Net income during the quarter was \$2.2 million (\$0.01 per share) compared with net loss of \$0.7 million (\$0.00 per share) in the third quarter of 2014.
- Income after tax from underlying operations ⁽¹⁾ in the current quarter was \$2.6 million (\$0.01 per share) compared with loss after tax from underlying operations of \$0.9 million (\$0.00 per share) in the third quarter of 2014.
- During the quarter, cash cost⁽²⁾ of silver produced at Cerro Bayo was \$8.31 per oz Ag net of Au credits and the site all-in cost was \$15.18 per oz Ag net of Au credits, compared to \$6.26 and \$12.23, respectively, in the third quarter of 2014. Cash cost of production at Costerfield for the quarter was \$553 per Au Eq. oz produced and the site all-in cost was \$763 per Au Eq. oz produced compared to \$747 and \$1,047, respectively, in the third quarter of 2014. Cash cost of production at Björkdal per Au Eq. oz was \$934 and the site all-in cost was \$1,110 per Au Eq. oz as compared to \$706 and \$852 respectively for period of September 10, 2014 to September 30, 2014. Björkdal was acquired on September 9, 2014.
- Improved operational expense exchange rates and lower petroleum prices were significant contributors to lower costs in the quarter. The Australian dollar averaged 1.3787/US\$ vs 1.0818/US\$ in the corresponding quarter of the prior year. The Chilean Peso averaged 677/US\$ vs 578/US\$ in the corresponding quarter of the prior year. The Swedish Krona averaged 8.4849/US\$ in the period vs 6.9493/US\$ in the corresponding quarter of the prior year. The petroleum price was 48% lower than in the corresponding quarter of the prior year.
- Dividends paid in the third quarter of 2015 increased to \$3.0 million (C\$0.0098 per share) compared to \$2.7 million (C\$0.0086 per share) in the corresponding quarter of the prior year, due to higher revenue in the quarter.
- Capital expenditures during the third quarter of 2015 were \$4.2 million at Cerro Bayo, \$3.2 million at Costerfield and \$3.4 million at Björkdal compared to \$4.4 million at Cerro Bayo and \$6.4 million at Costerfield and \$0.6 million at Björkdal in the third quarter of 2014.
- At September 30, 2015, the Company had \$49.7 million of cash and cash equivalents.

⁽¹⁾ Income after tax from underlying operations is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

⁽²⁾ Cash cost and site all-in costs are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

2. Operating Highlights

a. Consolidated Production and Sales

In the third quarter of 2015, Mandalay produced 25,996 oz Au, 632,498 oz Ag and 964 t Sb, representing 40,293 Au Eq. oz., a 3% increase over production in the third quarter of 2014 which was 18,990 oz Au, 823,379 oz Ag and 1,000 t Sb, representing 39,021 Au Eq. oz.

The addition of the Björkdal mine to Mandalay's portfolio contributed 9,761 Au Eq. oz to the increase in production, which was partly offset by lower production from Cerro Bayo due to lower grades and lower ore production volumes than in the year-ago period. The increase in production at Costerfield was the result of more tonnes of ore mined and processed at a higher grade than in the comparative period of the prior year.

Saleable Production

Metal	Source	Three months to 30 September 2015	Three months to 30 September 2014	Nine months to 30 September 2015	Nine months to 30 September 2014
Gold (oz)	Costerfield	10,930	9,454	30,909	24,625
	Cerro Bayo	5,305	6,445	15,671	18,548
	Bjorkdal	9,761	3,091	33,574	3,091
	Total	25,996	18,990	80,154	46,264
Antimony (t)	Costerfield	964	1,000	2,775	2,713
Silver (oz)	Cerro Bayo	632,498	823,379	1,820,741	2,308,330
Average quarterly prices:					
Gold US\$/oz		1,125	1,281	-	-
Antimony US\$/tonne		6,894	9,405	-	-
Silver US\$/oz		14.93	19.76	-	-
Au Eq. (oz) ¹	Costerfield	16,835	16,792	49,340	44,811
	Cerro Bayo	13,697	19,138	40,372	54,307
	Bjorkdal	9,761	3,091	33,574	3,091
	Total	40,293	39,021	123,286	102,209

¹ Au Eq. oz produced is calculated by multiplying the saleable quantities of Au, Ag and Sb in the period by the respective average market price of the commodities in the period, adding the three amounts to get "total contained value based on market price", and then dividing that total contained value by the average market price of Au in the period. Average Au price in the period is calculated as the average of the daily LME PM fixes in the period, with price on weekend days and holidays taken from the last business day; average Sb price in the period is calculated as the average of the high and low Rotterdam warehouse prices for all days in the period, with price on weekend days and holidays taken from the last business day; average Ag price in the period is calculated as the average of the daily London Broker's silver spot price for all days in the period, with price on weekend days and holidays taken from the last business day. The source for all prices is www.metalbulletin.com.

Sales

Metal	Source	Three months to 30 September 2015	Three months to 30 September 2014	Nine months to 30 September 2015	Nine months to 30 September 2014
Gold (oz)	Costerfield	9,758	8,891	29,284	23,236
	Cerro Bayo	5,819	3,921	18,635	16,384
	Bjorkdal	9,815	3,294	33,438	3,294
	Total	25,392	16,106	81,357	42,913
Antimony (t)	Costerfield	916	852	2,596	2,356
Silver (oz)	Cerro Bayo	677,152	467,606	2,155,652	2,080,435
Average quarterly prices:					
Gold US\$/oz		1,125	1,281	-	-
Antimony US\$/tonne		6,894	9,405	-	-
Silver US\$/oz		14.93	19.76	-	-
Au Eq. (oz) ¹	Costerfield	15,369	15,148	46,585	40,751
	Cerro Bayo	14,803	11,130	47,908	48,623
	Bjorkdal	9,815	3,294	33,438	3,294
	Total	39,987	29,572	127,931	92,669

¹Au Eq. oz sold is calculated by multiplying the quantities of Au, Ag, and Sb sold in the period by the respective average market prices of the commodities in the period, adding the three amounts to get a "total contained value based on market price", and then dividing that total contained value by the average market price of Au in the period. The source for all prices is www.metalbulletin.com, with price on weekend days and holidays taken from the last business day.

b. Costerfield Gold-Antimony Mine, Victoria, Australia

- i. *Production* — Saleable Au production for the third quarter of 2015 was 10,930 oz versus 9,563 oz in the previous quarter and 9,454 oz in the third quarter of 2014. Saleable Sb production for the third quarter of 2015 was 964 t versus 842 t in the previous quarter and 1,000 t in the third quarter of 2014. Increased gold production in the current quarter compared to both previous quarter and the corresponding quarter of the previous year was primarily due to increased mine tonnage output and higher gold grades of ore processed.
- ii. *Operating Costs* — Cash cost per Au Eq. oz produced in the third quarter of 2015 was \$553 versus \$578 in the previous quarter and \$747 in the third quarter of 2014. The lower cash cost in the third quarter of 2015 was due to high throughput and high grades of ore processed coupled with the completion of the transition to 10 metre mining stopes from 5 metre stopes throughout the mine, and consequent reduction in cost. The site all-in cost per Au eq. oz produced in the third quarter of 2015 was \$763, versus \$795 in the previous quarter and \$1,047 in the third quarter of 2014.

c. Cerro Bayo Silver-Gold Mine, Aysen, Chile

- i. *Production* — Cerro Bayo produced 632,498 oz Ag and 5,305 oz Au in the third quarter of 2015 versus 597,489 oz Ag and 5,361 oz Au in the previous quarter and 823,379 oz Ag and 6,445 oz Au in the third quarter of 2014. Production at Cerro Bayo was lower than in the

prior year corresponding quarter mainly due to lower grades and tonnages of ore mined and processed as the bottom levels of Dagny and Fabiola mines. Production in the current quarter improved compared to the previous quarter due to somewhat higher volumes of ore mined with better plant recoveries for both Au and Ag.

- ii. *Operating Costs* — Cash cost per saleable oz Ag produced net of Au credits was \$8.31 in the third quarter of 2015 versus \$7.61 in the previous quarter and \$6.26 in the third quarter of 2014. Cash cost per oz was higher in the third quarter of 2015 compared to the corresponding quarter in 2014, principally due to lower head grades and tonnages being extracted from the bottom levels of Dagny and Fabiola mines. The site all-in cost per oz Ag produced net of Au by-product credit was \$15.18 in the third quarter of 2015 versus \$14.84 in the previous quarter and \$12.23 in the third quarter of 2014. The all-in costs per oz Ag are expected to drop as the higher grade Delia SE mine ramps up production during 2016, replacing the low grade mineral currently being mined from the final levels of Dagny and Fabiola mines.

d. Björkdal Gold Mine, Sweden

- i. *Production* — Björkdal produced 9,761 oz Au in the third quarter of 2015 versus 11,494 oz Au in the previous quarter and 3,091 oz Au in third quarter of 2014 (2014 results are based on a partial period of September 10 – September 30). Production was lower in current quarter than the prior quarter due to lower grades mined and processed. Reconciled mill head grades declined from 1.37 g/t to 1.07 g/t Au and gold recovery decreased from 90% to 87%. The lower mill head grades resulted from the tonnages mined from underground being lower grade and the overall tonnages mined being lower requiring the processing of a larger quantity of low grade stockpiles. The lower recoveries resulted from the decreased mill head grade. Increased production from both the underground and open pit mines as well as the discarding of uneconomical underground development ore is being implemented to improve the mill feed grades in the coming quarters.
- ii. *Operating Costs* — Cash cost per saleable oz Au produced at Björkdal in the third quarter of this year was \$934 and the site all-in cost per saleable oz Au produced was \$1,110, as compared to \$884 and \$1,035 in previous quarter and \$706 and \$852 respectively in prior year quarter of 2014. The current quarter higher unit costs reflect the lower unit volume production in the current quarter, compared to both prior periods.

3. Exploration

A detailed mid-year update of all exploration activity was released on July 29, 2015. The descriptions of exploration activities below are a summary of the more detailed information reported in the mid-year exploration release, available on the Company's website at: www.mandalayresources.com

a. Cerro Bayo

At Cerro Bayo, drilling under Laguna Verde is revealing the southeast and depth limits of the Coyita vein, with a large gap between the northwest and southeastern mineralized zones (already estimated as proven and probable reserves) and still to be filled in during the second half of the year. The newly discovered Camila vein to the northeast of Coyita is also emerging as a target for infill drilling.

b. Costerfield

At Costerfield, infill and extensional drilling of the Cuffley lode above the King Cobra fault has delivered mineralized intercepts that will be incorporated in our year end update. In addition, the extension of the Cuffley lode below the King Cobra fault is now demonstrated in two intercepts, spaced about 200 m apart along strike and 100 m apart down-dip.

c. Björkdal

At Björkdal, the Company is focused on rebuilding the fundamental geological understanding of the mineralized system, which increasingly appears to be contact metasomatic in origin, with multiple newly-recognized vein orientations. Abundant gold bearing intercepts in open pit and underground extensional drilling as well as in initial drilling at the Ronnberget target some 5 km to the east of the mine demonstrates not only that the known mineralized zones are open to extension but that the gold is widely distributed in the district.

d. Challacollo

At Challacollo, identification of a suitable water source for the proposed operation is the significant remaining factor that is required prior to being able to demonstrate feasibility. Mandalay has decided to postpone submitting the EIS application until the water source can be specified, giving the Company a period of time to optimize the project with further exploration, as well as plant, capital cost and operating cost refinements.

e. La Quebrada, Chile

La Quebrada is a non-core asset of the Company. \$0.1 million exploration activities occurred in the third quarter of 2015.

f. Lupin and Ulu, Canada

The Lupin and Ulu Au projects in Nunavut, Canada were acquired with the Elgin acquisition and are currently held for sale as non-core assets. Shortly after the end of the third quarter, 2015, the Company received a water license for ongoing care and maintenance work at Lupin.

1.0 DATE

This MD&A is dated as of 5th November, 2015.

1.1 SUBSEQUENT EVENTS

Quarterly Dividend

On November 5, 2015, the Board of Directors declared a dividend in the amount of \$0.0063 per share (C\$ 0.0083 per share), payable on 26th November, 2015 to shareholders of record as of 16th November, 2015.

1.2 PORTFOLIO AND OPERATIONAL OVERVIEW

The Company is a Toronto-based mining company, the business of which is to acquire, discover, develop and produce mineral commodities. It currently produces Au, Ag and Sb in Australia, Chile, and Sweden. The Company uses its strong technical expertise and understanding of value creation to systematically increase the value of its assets through a disciplined approach of exploration, mining and processing optimization and operational efficiency. The Company's current producing assets are its Costerfield Au-Sb mine in Victoria, Australia, its Cerro Bayo Ag-Au mine in Patagonia, Chile, and its Björkdal Au mine in northern Sweden. The Company is completing a feasibility study on its Challacollo Ag-Au project near Iquique, Chile. The Company conducts exploration on near-mine and district targets at its operating and feasibility stage projects.

The Company is currently holding its La Quebrada Cu-Ag project near La Serena, Chile, and its Lupin and Ulu Au projects in Nunavut, Canada for sale.

Costerfield

Costerfield is a 100%-owned Au-Sb mine located in the state of Victoria, Australia, that was purchased by the Company in late 2009. Acquired while on care and maintenance, the mine was restarted immediately. Production has increased from an initial 170 tonnes per day ("tpd") in 2009 to 450 tpd in the third quarter of 2015. The production increases (and associated unit cost reductions) are due principally to: a change in mining method from cut-and-fill to blast-hole stoping with cemented rock fill; increasing sub-level spacing from 5 m to 10 m; replacing the underground mobile mining fleet; introduction of a mobile crusher to decrease the particle size of mill feed (permitting high recoveries while increasing throughput) and construction of a new gold room which has increased the proportion of gold recovered to gravity concentrate. In addition, rigorous improvements in maintenance and production processes in the mine and plant have led to increases in equipment availability and utilization as well as in labor productivities. Exploration (funded by mine operating cash flow) has added reserves at a faster pace than depletion during Mandalay ownership, building an extended mine life. The company has now completed all of the primary development and surface infrastructure requirements for the remaining life of mine of the current Proven and Probable reserves. Exploration through the end of 2015 will be focused on potential expansions of the Cuffley Lode and testing all of the remaining high priority targets on the property.

Cerro Bayo

Cerro Bayo is a 100%-owned Ag-Au mine located in the Aysen Province of southern Chile, purchased while on care and maintenance in August, 2010. Mining operations were restarted in the fall of 2010 and milling operations were restarted in the first quarter of 2011. Key to the financial performance of the restarted operation have been: shifting the mining method from shrinkage stoping to completely mechanized blast-hole open stoping; ramping up the operation to a total rate of 1,400 tpd from three mines; and developing four highly competitive concentrate customers. Exploration (funded by operational cashflow) has added reserves at a faster pace than depletion during Mandalay ownership, building an extended mine life from a nominal three years to more than five today. The mine is currently transitioning from the original Fabiola and Dagny mines to the Delia SE and Coyita mines. This has resulted in lower grade ore feed during 2015. We expect this situation to reverse itself as the company accesses higher grade ores in the Delia SE mine in 2016.

Björkdal

Björkdal is a 100% owned gold mine located in northern Sweden. It was acquired through the Company's acquisition of Elgin Mining on September 9, 2014. The operation currently produces from both an open pit mine and an underground mine. The concentrator currently processes 3,500 tpd and has been permitted to expand to 4,300 tpd. Activities since the acquisition have been focused on: completing a new, independent estimation of Mineral Resources and Reserves; augmenting the geologic and sampling staff to provide for best-practice core logging, face mapping, and sampling; formulating an optimized life-of-mine plan balancing production from open pit and underground while reducing dilution in both; establishing a local assay lab for fast exploration and grade control sample turnaround; and fundamental metallurgical surveys and ore sorting studies to improve plant performance. The company's primary objective at Bjorkdal is to grow unit production from the current annual run rate of 45,000-50,000 ounces/year over the next two years. The majority of the production growth is expected to come from mining of higher grades and with less dilution rather than higher tonnages.

Challacollo

Challacollo is a 100% owned Ag-Au deposit located in Region I, Northern Chile. Mandalay completed an independent NI 43-101 Mineral Resource estimate for this development property in conjunction with the acquisition, which was completed on February 7, 2014. Since then, the Company has completed: infill drilling to upgrade previously Inferred Mineral Resource to Indicated (filed on www.sedar.com on March 31, 2015); metallurgical studies; mine, plant and infrastructure design; and capital and operating costing. The permit application itself has been postponed until an adequate water supply can be secured. The key outstanding feasibility issue is securing an adequate water supply to support operation. Initial test water well drilling was not successful in this regard and the currently permitted water source is deemed to be too environmentally sensitive to be used for the project. The Company has identified additional water source options and is pursuing permitting for these alternative sources. The overall operations permit application has been postponed until an adequate water supply can be secured and incorporated into the project design.

La Quebrada

La Quebrada is a 100% owned Cu-Ag project located near La Serena, Chile. Mandalay completed a maiden Independent NI 43-101 Mineral Resource estimate for the property in 2012, and until Q2 2014 had been performing mining, metallurgical, engineering and financial studies while developing options for the project. It is currently held for sale.

Lupin/Ulu

The Lupin and Ulu Au projects in Nunavut, Canada were acquired with the Elgin acquisition and are currently held for sale as non-core assets. Lupin is a past-producing underground mine-mill complex on care and maintenance and Ulu is a nearby advanced exploration stage project. These projects are currently held for sale.

1.3 SELECTED QUARTERLY INFORMATION

The following table sets forth a summary of the Company's financial results for the three months ended September 30, 2015 and 2014:

	Three months ended September 30, 2015 (\$'000)	Three months ended September 30, 2014 (\$'000)
Revenue	43,282	34,676
Cost of sales	28,946	21,183
Income from mine operations before depreciation and depletion	14,336	13,493
Depreciation and depletion	9,472	9,537
Income from mine operations	4,864	3,956
Administration	2,787	1,939
Business development costs	64	1,013
Adjusted EBITDA*	11,485	10,541
Finance costs, foreign exchange and others/(income)**	(955)	1,314
Income/(loss) before tax	2,968	(310)
Current tax expense	(85)	526
Deferred tax expense (recovery)	873	(144)
Net Income/(loss) after tax	2,180	(692)
Total assets	349,399	351,768
Total liabilities	132,904	136,357
Income per share	0.01	(0.00)

*Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

**Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation and gain/loss on disposal of properties, if any.

The following table sets forth a summary of financial results for the nine months ended September 30, 2015 and 2014:

	Nine months ended September 30, 2015 (\$'000)	Nine months ended September 30, 2014 (\$'000)
Revenue	150,854	117,656
Cost of sales	90,855	67,932
Income from mine operations before depreciation and depletion	59,999	49,724
Depreciation and depletion	28,440	24,787
Income from mine operations	31,559	24,937
Administration	5,825	5,103
Business development costs	182	1,650
Adjusted EBITDA*	53,992	42,971
Finance costs, fx and others**	(451)	4,027
Income/(loss) before tax	26,003	14,157
Current tax expense	1,496	2,772
Deferred tax expense (recovery)	4,770	1,397
Net Income/(loss) after tax	19,737	9,988
Income per share	0.05	0.03

* Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

**Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation and gain/loss on disposal of properties, if any.

Dividend

Mandalay's dividend policy is to pay a quarterly dividend equal to an aggregate of 6% of the trailing quarter's revenue. The following table summarizes dividends paid by Mandalay in 2015 and 2014:

Declaration date	Payable to shareholders of record at	Dividends declared	Total payment	
		C\$	(\$'000)	
2015				
	February 17, 2015	March 09, 2015	0.0121	3,976
	May 12, 2015	May 22, 2015	0.0101	3,308
	Aug 05, 2015	Aug 27, 2015	0.0098	3,037
				10,321
2014				
	February 18, 2014	March 10, 2014	0.0077	2,344
	May 05, 2014	May 26, 2014	0.0074	2,335
	August 06, 2014	August 28, 2014	0.0086	2,693
	November 06, 2014	November 27, 2014	0.0058	2,094
				9,466

Adjusted EBITDA Reconciliation to Net Income

The table below reconciles adjusted EBITDA to reported net income for the three months ended September 30, 2015 and 2014. Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" on page 43 for further information.

	Three months ended September 30, 2015		Three months ended September 30, 2014	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Net Income/(loss)		2,180		(692)
Add: Non-cash and finance costs				
Depletion and depreciation	9,472		9,537	
Loss (gain) on disposal of property, plant and equipment	29		63	
Write off mineral properties/exploration and evaluation	-		-	
Share based compensation	135		424	
Interest and finance charges	1,344		1,262	
Fair value adjustments	(438)		(34)	
Current tax	(85)		526	
Deferred tax	873		(144)	
Foreign exchange (gain)/loss	(1,947)	9,383	(320)	11,314
		11,563		10,622
Less: Interest and other income	(78)	(78)	(81)	(81)
Adjusted EBITDA		11,485		10,541

	Nine months ended September 30, 2015		Nine months ended September 30, 2014	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Net Income/(loss)		19,737		9,988
Add: Non-cash and finance costs				
Depletion and depreciation	28,440		24,787	
Loss (gain) on disposal of property, plant and equipment	177		88	
Write off mineral properties/exploration and evaluation	-		682	
Share based compensation	712		1,324	
Interest and finance charges	4,000		2,253	
Fair value adjustments	(1,018)		9	
Current tax	1,496		2,772	
Deferred tax	4,770		1,397	
Foreign exchange (gain)/loss	(3,877)	34,700	(193)	33,119
		54,437		43,107
Less: Interest and other income	(445)	(445)	(136)	(136)
Adjusted EBITDA		53,992		42,971

Fair-value adjustments

As at September 30, 2015, the following items on the statement of financial position were subject to fair-value adjustments in accordance with IAS 39:

Conversion feature under debt financing – In May, 2014, the Company borrowed \$60 million in a five-year debt financing at an interest rate of 5.875% from Gold Exchangeable Limited (“GEL”), an unaffiliated special purpose vehicle incorporated in Jersey. GEL raised the financing proceeds by way of a concurrent offering of five-year senior exchangeable bonds (the “Bonds”) issued by Gold Exchangeable Limited (the “Issuer”), an unaffiliated special purpose vehicle incorporated in Jersey. The Company, through its wholly owned subsidiary Mandalay Resources Finance Limited (the “Borrower”), borrowed the proceeds of the Bond offering from the Issuer under the terms of a loan agreement and related funding agreement (the “Loan”) which together mirror the principal terms of the Bonds. Beginning on June 23, 2014, each Bondholder has the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust (“Gold Shares”) based on the then-applicable exchange price. The initial exchange price is \$149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of \$1,556 per ounce. The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which NAV of the SPDR Gold Trust or Gold Shares is calculated.

If a Bondholder exercises its exchange rights, GEL will give notice to the Borrower, and the Borrower will be required to deliver the requisite number of Gold Shares to the Bondholder.

GEL may redeem the Bonds at its option:

- any time after June 13, 2017, if the closing price of the Gold Shares exceeds 130% of the exchange price for at least 20 trading days in any 30 consecutive trading day period; or

- any time, if \$9 million or less principal amount of the Bonds remains outstanding.

The Borrower has equivalent redemption rights with respect to the Loan. If the Borrower exercise its redemption rights under the Loan, the Issuer will exercise its optional redemption rights under the Bonds.

The Company has computed and initially allocated \$4.6 million to the value of derivative financial instruments associated with the Loan. As at September 30, 2015, the Company has recomputed the derivative portion of the Loan at \$1.3 million from \$2 million in Q2 2015. As a result there is a mark-to-market adjustment loss of \$0.7 million in the quarter.

Marketable securities - With the acquisition of Elgin, the Company indirectly acquired marketable securities with the fair market value of \$0.15 million as at September 30, 2015, recorded in trade and other receivables on the statement of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement loss of less than \$0.1 million for the quarter ended September 30, 2015.

Oil derivative - On December 15, 2014, the Company entered into a crude oil call option for a notional amount of 120,000 barrels of crude oil at an exercise price of \$60.50 per barrel. As at September 30, 2015, the derivative has a carrying value of less than \$0.1 million recorded as derivative financial instruments in the consolidated financial statements.

The above items are non-operating in nature and the following tables summarize the impact of the accounting for these changes.

Fair value and deferred tax adjustments impact on items in the statement of financial position

	Before fair value and deferred tax adjustments ^(a)	Note	Fair value and deferred tax adjustments	As of September 30, 2015 ^(a)	As of December 31, 2014 ^(a)
			Q3 2015		
	(\$'000)		(\$'000)	(\$'000)	(\$'000)
Assets					
Deferred tax	5,967	(b)	(873)	5,094	7,360
Marketable Securities	175	(c)	(29)	146	221
Derivative financial instrument (oil derivative)	203	(d)	(200)	3	552
Liabilities					
Derivative financial instrument (Five year exchangeable bonds)	616	(e)	667	1,283	2,854
Equity					
Retained earnings/(deficit)	80,056		(435)	79,621	70,205

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax expense of \$873,000 for the three months ended September 30, 2015.

(c) The Company recorded fair value measurement loss of \$29,000 relating to marketable securities for the three months ended September 30, 2015.

(d) The Company recorded fair value measurement loss of \$200,000 relating to a crude oil call option for the three months ended September 30, 2015.

(e) The Company recorded fair value measurement gain of \$667,000 relating to the derivative portion of the five year exchangeable loan for the three months ended September 30, 2015

Fair value and deferred tax adjustments impact on items in the income statement for three months ended September 30, 2015 and 2014

	As of September 30, 2015				As of September 30, 2014
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	(\$'000)		(\$'000)	(\$'000)	(\$'000)
Income (loss) from operations	1,849			1,849	517
Other items					
Interest and other income	78			78	81
Finance (costs)/income	(1,344)	(a)	(29)	(906)	(1,228)
		(b)	667		
		(c)	(200)		
Foreign exchange gain (loss)	1,947			1,947	320
Net income/(loss) before tax	2,530		438	2,968	(310)
Current tax	85			85	(526)
Deferred tax		(d)	(873)	(873)	144
Net income/(loss)	2,615		(435)	2,180	(692)
Income (loss) per share					
Basic	\$0.01			\$0.01	\$0.00
Diluted	\$0.01			\$0.01	(\$0.00)

(a) The Company recorded fair value measurement loss of \$29,000 relating to marketable securities for the three months ended September 30, 2015.

(b) The Company recorded fair value measurement gain of \$667,000 relating to derivative portion of the five year exchangeable loan for the three months ended September 30, 2015

(c) The Company recorded fair value measurement loss of \$200,000 relating to a crude oil call option for the three months ended September 30, 2015.

(d) The Company recorded a deferred tax expense of \$873,000 for the three months ended September 30, 2015.

Fair value and deferred tax adjustments impact on items in the income statement for nine months ended September 30, 2015 and 2014

	As of September 30, 2015				As of September 30, 2014
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	(\$'000)		(\$'000)	(\$'000)	(\$'000)
Income (loss) from operations	24,663			24,663	16,090
Other items					
Interest and other income	445			445	136
Finance (costs)/income	(4,000)	(a)	(47)	(2,982)	(2,262)
		(b)	1,570		
		(c)	(505)		
Foreign exchange gain (loss)	3,877			3,877	193
Net income/(loss) before tax	24,985		1,018	26,003	14,157
Current tax	(1,496)			(1,496)	(2,772)
Deferred tax		(e)	(4,770)	(4,770)	(1,397)
Net income/(loss)	23,489		(3,752)	19,737	9,988
Income (loss) per share					
Basic	\$0.06			\$0.05	\$0.00
Diluted	\$0.06			\$0.05	\$0.03

(a) The Company recorded fair value measurement loss of \$47,000 relating to marketable securities for the nine months ended September 30, 2015.

(b) The Company recorded fair value measurement gain of \$1,570,000 relating to derivative portion of the five year exchangeable loan for the nine months ended September 30, 2015

(c) The Company recorded fair value measurement loss of \$505,000 relating to a crude oil call option for the nine months ended September 30, 2015.

(d) The Company recorded a deferred tax expense of \$4,770,000 for the nine months ended September 30, 2015.

1.4 RESULTS OF OPERATIONS

Three Months Ended September 30, 2015, compared to Three Months Ended September 30, 2014

During the three months ended September 30, 2015, the Company recorded net income of \$2.2 million (net of fair value measurement gain of \$0.4 million and deferred tax expense of \$0.9 million). This is compared to net loss of \$0.7 million (net of fair value measurement gain of less than \$0.03 million and deferred tax expense of \$0.1 million) during the three months ended September 30, 2014. Mandalay delivered adjusted EBITDA of \$11.5 million for the quarter ended September 30, 2015, compared to \$10.5 million in the quarter ended September 30, 2014.

Administrative expenses for the quarter ended September 30, 2015 were \$2.8 million compared to \$1.9 million during the quarter ended September 30, 2014. During the three months ended September 30, 2015, administration expenses of \$1.4 million at Corporate included \$0.81 million in management fees net of transfer pricing, \$0.09 million in audit and internal review fees, \$0.06 million in travel expense, \$0.17 million in legal and accounting fees, \$0.16 million in investor relations, transfer agent and filing fees, \$0.08 million for Lupin and Ulu care and maintenance and \$0.03 million in general administrative expenses and computer maintenance.

Capital expenditures in the third quarter of 2015, including capitalized depreciation and exploration, were \$11.3 million. Of this amount \$4.2 million was spent at Cerro Bayo, \$3.2 million at Costerfield, \$3.4 million at Björkdal, \$0.3 million at Challacollo and \$0.1 million at La Quebrada. By comparison, capital expenditures in the third quarter of 2014 were \$14.3 million.

Costerfield Results, Production, Sales and Costs for the Three Months Ended September 30, 2015

Costerfield generated revenue of \$16.4 million for the quarter ended September 30, 2015. Income from mine operations before depreciation and depletion was \$8.4 million, adjusted EBITDA was \$8.2 million, operating net income was \$4.0 million and net income after tax was \$3.3 million during the period. For the quarter ended September 30, 2014, revenue was \$18.9 million, income from mine operations before depreciation and depletion was \$6.4 million, adjusted EBITDA was \$6.2 million, operating net income was \$1.7 million and net income after tax was \$0.8 million. Higher income from mine operations before depreciation and depletion as compared to the previous quarter was due mostly to the combination of higher production and excellent cost control, which more than offset the decline in metal prices.

Costerfield financial results

	Three months ended September 30, 2015 (\$'000)	Three months ended September 30, 2014 (\$'000)
Revenue	16,363	18,876
Cost of sales	7,954	12,498
Income from mine operations before depreciation and depletion	8,409	6,378
Depreciation and depletion	3,618	4,035
Income from mine operations	4,791	2,343
Administration ⁽¹⁾	321	299
Adjusted EBITDA ⁽²⁾⁽⁴⁾	8,212	6,170
Finance costs, foreign exchange and others ⁽³⁾	190	944
Income/(loss) before tax	4,280	1,100
Deferred tax expense (recovery)	1,013	328
Operating net income/(loss) after tax ⁽⁴⁾	4,029	1,663
Net income/(loss) after tax	3,267	772
Capital expenditure ⁽⁵⁾	3,189	6,387

¹Includes intercompany transfer pricing recharge costs of \$124,068 in three months ended in September 30, 2015 and \$91,328 in the same period of 2014.

²Does not include intercompany transfer pricing recharge costs.

³Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/loss on disposals of properties and intercompany transfer pricing recharge costs of \$361,054 in three months ended September 30, 2015 and \$463,809 in the same period of 2014.

⁴Adjusted EBITDA and operating net income/(loss) after tax are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS measures" for further information.

⁵Includes capitalized depreciation on equipment.

Costerfield operating net income/(loss) after tax reconciliation to net income/(loss) after tax

	Three months ended September 30, 2015 (\$'000)	Three months ended September 30, 2014 (\$'000)
Net income/(loss) after tax	3,267	772
<u>Add: Intercompany expenses</u>		
Intercompany interest expense	277	336
Intercompany transfer pricing recharge costs	485	555
Operating net income/(loss) after tax	4,029	1,663

Costerfield operating statistics

The following table summarizes certain aspects of production, sales, costs and capital investment activities at Costerfield.

	Unit	Nine months ended September 30, 2015	Nine months ended September 30, 2014	Three months ended September 30, 2015	Three months ended September 30, 2014	Three months ended June 30, 2015	Three months ended March 31, 2015
Mining Production and Mining Cost							
Operating development	m	3,599	3,667	1,346	1,305	1,193	1,060
Mined ore	t	119,350	124,033	41,373	43,995	37,585	40,393
Ore mined Au grade	g/t	10.60	8.77	10.89	9.95	10.17	10.69
Ore mined Sb grade	%	4.04	3.81	4.20	4.05	4.06	3.88
Mined contained Au	oz	40,655	34,956	14,484	14,074	12,287	13,884
Mined contained Sb	t	4,827	4,724	1,736	1,782	1,524	1,567
Mining cost per tonne ore	\$/t	143	183	144	170	142	144
Processing and Processing Cost							
Processed ore	t	115,725	112,307	39,140	39,017	37,984	38,601
Mill head grade Au	g/t	10.48	8.91	10.94	9.99	9.86	10.61
Mill head grade Sb	%	3.95	3.93	4.05	4.29	3.79	4.01
Recovery Au	%	89.59	89.52	89.83	88.79	88.98	89.91
Recovery Sb	%	95.11	94.51	95.33	94.51	94.99	95.00
Concentrate produced	dry t	8,015	7,840	2,795	2,969	2,517	2,704
Concentrate grade Au	g/t	82.79	61.05	90.07	62.95	81.45	76.51
Concentrate grade Sb	%	54.23	53.25	54.03	53.30	54.27	54.40
Au produced in gravity concentrate	oz	13,450	13,293	4,231	5,066	4,083	5,136
Au produced in sulfide concentrate	oz	17,460	11,332	6,699	4,388	5,480	5,280
Saleable Au produced	oz	30,909	24,625	10,930	9,454	9,563	10,416
Saleable Sb produced	t	2,775	2,713	964	1,000	842	969
Saleable Au equivalent produced	oz	49,340	44,811	16,835	16,792	15,638	16,867
Processing cost per tonne ore	\$/t	37.49	51.79	34.91	53.04	40.91	36.72
Sales							
Concentrate sold	dry t	7,530	7,047	2,673	2,570	2,593	2,264
Concentrate Au grade	g/t	79.13	60.68	78.43	64.59	79.89	79.09
Concentrate Sb grade	%	54.21	53.05	53.96	52.65	54.35	54.36
Au sold in gravity concentrate	oz	13,664	13,151	4,214	4,808	4,219	5,231
Au sold in sulfide concentrate	oz	15,620	10,085	5,544	4,083	5,484	4,592
Au sold	oz	29,284	23,235	9,758	8,891	9,703	9,823
Sb sold	t	2,596	2,356	916	852	899	781
Benchmark Unit Cost							
Site cash operating cost/ tonne ore processed ⁽¹⁾	\$/t	237	328	233	315	233	243
Site cash operating cost/tonne concentrate produced ⁽¹⁾	\$/t	3,415	4,701	3,269	4,144	3,513	3,474
Adjusted EBITDA/tonne ore milled ⁽¹⁾	\$/t	240	161	210	158	262	248
Adjusted EBITDA/tonne concentrate produced ⁽¹⁾	\$/t	3,459	2,301	2,938	2,078	3,953	3,536
Cash cost per oz Au equivalent produced ⁽¹⁾⁽²⁾	\$/oz	566	838	553	747	578	566
Site all-in cost/oz Au eq. oz produced ⁽¹⁾⁽³⁾	\$/oz	777	1,119	763	1,047	795	774
Capital Spending							
Capital development	m	1,802	2,683	322	920	738	742
Capital development cost	\$000	7,657	13,608	1,196	5,050	3,288	3,173
Capital development cost/meter	\$/m	4,249	5,072	3,711	5,492	4,455	4,277
Capital purchases	\$000	4,736	5,889	1,166	486	2,005	1,566
Capitalized exploration	\$000	1,434	3,193	827	850	305	301

¹Does not include intercompany transfer pricing recharge costs and business development costs.

²Cash cost per ounce of gold equivalent produced is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

³Site all-in cost per ounce of gold equivalent produced is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

Three months ended September 30, 2015 and 2014

The Costerfield mine completed 1,346 metres (“m”) of operating development in the third quarter of 2015 versus 1,305 m in 2014. Less ore was mined in the 2015 quarter (41,373 t) than in the 2014 quarter (43,995 t) but with higher grades. The mined Au grade in 2015 was 10.89 grams per tonne (“g/t”) versus 9.95 g/t in 2014, while the mined Sb grade was 4.20% in 2015 versus 4.05%. Mining costs were significantly lower in the 2015 quarter (\$144/t) than in the previous year period (\$170/t), due principally to savings as mining was consolidated into N-lode and Cuffley at 10 m level spacing.

Capital development advance was 322 m in 2015 compared to 920 m 2014; the cost in 2015 was \$3,711/m versus \$5,492/m in 2014. The reason for reduced capital development cost in 2015 was a shift to a mining contractor to perform the work.

In the third quarter of 2015, the Costerfield concentrator processed 39,140 t of ore versus 39,017 t in the third quarter of 2014. The Au head grade in 2015 was 10.94 g/t versus 9.99 g/t Au a year ago, while the Sb head grade was 4.05% in 2015 versus 4.29% in 2014. The plant achieved recoveries of 89.83% Au and 95.33% Sb versus 88.79% Au and 94.51% Sb in third quarter of 2014. Processing costs in third quarter of 2015 were \$34.91/t, lower than the \$53.04/t incurred during the prior year period.

Concentrate production was 2,795 dry metric tonnes (“dmt”) during the third quarter of 2015 versus 2,969 dry metric tonnes during the third quarter of 2014. Total saleable metal production in the third quarter of 2015 was 964 t Sb and 10,930 oz Au versus 1,000 t Sb and 9,454 oz Au in 2014.

During the third quarter of 2015, Costerfield sold 2,673 dmt of concentrate compared to 2,570 dmt in the prior year period. A total of 9,758 oz Au and 916 t Sb were sold in 2015 versus total of 8,891 oz Au and 852 t Sb.

Total site cash operating cost of ore processed was \$233/t in the third quarter of 2015, compared to \$315/t in the third quarter of 2014, mainly due to lower headcount. This translates into a lower cash cost per Au Eq. oz produced (\$553/oz in third quarter of 2015 compared to \$747/oz in prior year period) and lower all-in cost per Au Eq. oz produced (\$763/oz in third quarter of 2015 compared to \$1,047/oz in prior year period).

During the third quarter of 2015, the Company invested \$1.2 million in capital development, \$0.8 million in exploration and \$1.2 million in property, plant and equipment at Costerfield. The corresponding amounts for the prior year quarter were \$5.0 million, \$0.9 million and \$0.5 million, respectively.

Nine months ended September 30, 2015, and September 30, 2014

The Costerfield mine completed 3,599 m of operating development in 2015 versus 3,667 m in 2014. It produced 119,350 t of ore containing 10.60 g/t Au and 4.04% Sb in 2015 as compared to 124,033 t of ore containing 8.77 g/t Au and 3.81 % Sb. Mining costs were \$143/t in 2015 versus \$183/t in 2014. Completion of the transition to the new 10 m stoping levels in N-lode and Cuffley lode, plus good stope performance, were the principal factors driving lower cost per tonne during 2015. Mine production in 2015 was intentionally held back relative to 2014 so as to curtail the build-up of mined ore stockpiles.

Capital development in 2015 was 1,802 m compared to 2,683 m in 2014. The cost per meter was \$4,249 during 2015 compared to \$5,072 per m in 2014, due in part to lower contractor costs than in-house costs in 2015.

In the nine months ended September 30, 2015, the Costerfield concentrator processed 115,725 t of ore containing 10.48 g/t Au and 3.95% Sb. The corresponding year-ago throughput was 112,307 t of ore containing 8.91 g/t Au and 3.93% Sb. The plant achieved 89.59% recovery of gold and 95.11% recovery of Sb in the 2015 period compared to 89.52% recovery of gold and 94.51% recovery of Sb in 2014.

The larger throughput at higher head grade led to greater saleable metal production in 2015. Concentrate production was 8,015 dmt in 2015 containing 2,775 t saleable Sb and 17,460 oz saleable Au in 2015, with an additional 13,450 oz saleable Au produced in gravity concentrate. Concentrate production was 7,840 dmt in 2014 containing 2,713 t saleable Sb and 11,332 oz saleable Au in 2014, with an additional 13,293 oz saleable Au produced in gravity concentrate. Processing costs were lower in 2015 than in 2014: \$37.49/t versus \$51.79/t, due to real cost savings in labor and consumables in the current year

Site cash operating cost per tonne of ore processed was \$237/t in 2015 versus \$328/t in 2014. The lower operating costs led to a lower cash cost in 2015 (\$566/Au Eq. oz) as compared to 2014 (\$838/Au Eq. oz), as well as lower all-in cost of \$777/Au Eq. oz versus \$1,119/Au Eq. Oz in 2014.

During the nine months ended September 30, 2015, the Company invested \$7.7 million in capital development, \$1.4 million in exploration, and \$4.7 million in property, plant and equipment. The corresponding amounts for 2014 were \$13.6 million for capital development, \$3.2 million for exploration and \$5.9 million for property, plant and equipment.

Cerro Bayo Results, Production, Sales and Costs for the Three Months Ended September 30, 2015

Cerro Bayo generated revenue of \$16.0 million for the quarter ended September 30, 2015. Income from mine operations before depreciation and depletion was \$4.3 million. Adjusted EBITDA was \$3.6 million, operating net loss was \$0.8 million, and net loss after tax was \$1.3 million. For the quarter ended September 30, 2014, revenue was \$11.8 million, income from mine operations before depreciation and depletion was \$6.5 million. Adjusted EBITDA was \$5.8 million, operating net income was \$0.7 million, and net income after tax was \$0.2 million.

Cerro Bayo financial results

	Three months ended September 30, 2015 (\$'000)	Three months ended September 30, 2014 (\$'000)
Revenue	15,956	11,804
Cost of sales	11,705	5,346
Income from mine operations before depreciation and depletion	4,251	6,459
Depreciation and depletion	4,132	4,887
Income from mine operations	119	1,572
Administration ⁽¹⁾	828	774
Adjusted EBITDA ⁽²⁾⁽⁴⁾	3,607	5,836
Finance costs, foreign exchange and others ⁽³⁾	768	410
Income/(loss) before tax	(1,477)	388
Current tax expense	(65)	568
Deferred tax expense (recovery)	(133)	(389)
Operating net income/(loss) after tax ⁽⁴⁾	(763)	674
Net income/(loss) after tax	(1,279)	209
Capital expenditure ⁽⁵⁾	4,244	4,428

¹Includes intercompany transfer pricing recharge costs of \$183,738 in 2015 and \$151,852 in 2014.

²Does not include intercompany transfer pricing recharge costs.

³Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/(loss) on disposal of properties and intercompany transfer pricing recharge costs of \$331,786 in 2015 and \$313,074 in 2014.

⁴See "Non-IFRS Measures" for further information.

⁵Includes capitalized depreciation on equipment.

Cerro Bayo operating net income/(loss) after tax reconciliation to net income/(loss) after tax

	Three months ended September 30, 2015 (\$'000)	Three months ended September 30, 2014 (\$'000)
Net income/(loss) after tax	(1,279)	209
<u>Add: Intercompany expenses</u>		
Intercompany interest expense	-	-
Intercompany transfer pricing recharge costs	516	465
Operating net income/(loss) after tax	(763)	674

Cerro Bayo operating statistics

The following table summarizes certain aspects of production, sales, costs and capital investment activities at Cerro Bayo.

	Unit	Nine months ended September 30, 2015	Nine months ended September 30, 2014	Three months ended September 30, 2015	Three months ended September 30, 2014	Three months ended June 30, 2015	Three months ended March 31, 2015
Mining Production and Mining Cost							
Operating development	m	4,545	5,021	1,354	1,850	1,583	1,608
Mined ore	t	331,968	342,811	122,405	120,192	104,396	105,167
Ore mined Au grade	g/t	1.70	2.06	1.57	2.07	1.89	1.67
Ore mined Ag grade	g/t	192.98	249.75	181.00	261.14	200.33	199.63
Mined contained Au	oz	18,165	22,712	6,192	8,003	6,339	5,634
Mined contained Ag	oz	2,059,695	2,752,665	712,316	1,009,115	672,401	674,978
Mining cost per tonne ore	\$/t	51.41	51.84	46.06	52.09	55.07	54.00
Processing and Processing Cost							
Processed ore	t	338,922	318,155	122,289	99,190	104,802	111,831
Mill head grade Au	g/t	1.70	2.11	1.58	2.30	1.90	1.65
Mill head grade Ag	g/t	191.42	256.21	182.85	288.83	204.82	188.24
Recovery Au	%	86.50	88.03	87.07	89.93	85.93	86.52
Recovery Ag	%	90.35	91.29	91.03	92.66	89.59	90.39
Concentrate produced	dry t	5,243	6,415	1,761	2,331	1,761	1,721
Concentrate grade Au	g/t	95.16	92.11	95.84	88.03	96.91	92.68
Concentrate grade Ag	g/t	11,180.24	11,600.15	11,561.12	11,390.58	10,918.57	11,058.38
Saleable Au produced	oz	15,671	18,548	5,305	6,445	5,361	5,005
Saleable Ag produced	oz	1,820,741	2,308,331	632,498	823,379	597,489	590,755
Saleable Au equivalent produced	oz	40,372	54,307	13,697	19,138	13,585	13,091
Processing cost per tonne ore	\$/t	21.66	29.12	19.12	33.85	22.30	23.85
Sales							
Concentrate sold	dry t	6,170	5,859	1,921	1,320	1,974	2,275
Concentrate Au grade	g/t	96.14	89.10	96.39	94.51	92.45	99.14
Concentrate Ag grade	g/t	11,248	11,448	11,347	11,420	11,187	11,218
Au sold	oz	18,635	16,384	5,819	3,921	5,732	7,084
Ag sold	oz	2,155,652	2,080,435	677,152	467,606	685,703	792,797
Benchmark Unit Cost							
Site cash operating cost/ tonne ore processed ⁽¹⁾	\$/t	83.62	99.96	76.93	113.75	88.29	86.56
Site cash operating cost/tonne concentrate produced ⁽¹⁾	\$/t	5,406	4,958	5,343	4,841	5,253	5,625
Adjusted EBITDA/tonne ore milled ⁽¹⁾	\$/t	49	90	29	59	45	73
Adjusted EBITDA/tonne concentrate produced ⁽¹⁾	\$/t	3,158	4,477	2,049	2,504	2,698	4,762
Cash cost per oz Ag produced net of Au byproduct credit ⁽²⁾	\$/oz	8.66	5.87	8.31	6.26	7.61	10.09
Site all-in cost net of gold credit /oz Ag produced ⁽¹⁾⁽³⁾	\$/oz	15.85	11.81	15.18	12.23	14.84	17.61
Capital Spending							
Capital development	m	2,084	1,567	881	583	754	450
Capital development cost	\$000	6,372	5,504	2,367	1,654	2,526	1,479
Capital development cost/meter	\$/m	3,058	3,512	2,687	2,840	3,352	3,290
Capital purchases	\$000	3,719	6,061	1,035	1,972	768	1,916
Capitalized exploration	\$000	2,121	1,697	842	802	761	518

¹Does not include intercompany transfer pricing recharge costs and business development costs.

²The cash cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measures. Refer to Section 1.16“Non-IFRS Measures” for further information.

³Site all-in cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measure. Refer to Section 1.16“Non-IFRS Measures” for further information.

Three months ended September 30, 2015 and 2014

During the third quarter, the Cerro Bayo mine produced 122,405 t of ore versus 120,192 t in the year-ago period. Mined grades were 181 g/t Ag and 1.57 g/t Au in 2015 versus 261.14 g/t Ag and 2.07 g/t Au in

2014. During 2015, 1,354 m of operating development were completed versus 1,850 m in the 2014 comparable period. Mining cost in the third quarter of 2015 was \$46.06/t compared to \$52.09/t in the third quarter of 2014.

During the third quarter of 2015, the Cerro Bayo concentrator processed 122,289 t of ore with grades of 182.85 g/t Ag and 1.58 g/t Au, compared to 99,190 t of ore with grades of 288.83 g/t Ag and 2.30 g/t Au during the third quarter of 2014. Metallurgical recoveries during the third quarter were 87.07% for Au and 91.03% for Ag in 2015 versus 89.93% for Au and 92.66% for Ag in the prior year period. Processing cost was \$19.12/t in 2015 versus \$33.85/t in 2014.

Cerro Bayo produced 1,761 dmt of concentrate containing 632,498 oz saleable Ag and 5,305 oz saleable Au in the third quarter of 2015, as compared to 2,331 dmt of concentrate containing 823,379 oz saleable Ag and 6,445 oz saleable Au in the comparable 2014 period.

During the third quarter of 2015, Cerro Bayo sold 1,921 dmt of concentrate containing 5,819 oz of saleable Au and 677,152 oz of saleable Ag. Sales during the comparable quarter of 2014 were 1,320 dmt of concentrate, 3,921 oz of Au and 467,606 oz of Ag.

Total site cash operating cost was \$76.93/t of ore processed in the third quarter of 2015, compared to \$113.75/t in the third quarter of 2014. However, because ore grades were lower in the 2015 quarter, there was an increase in cash cost to \$8.31 per oz Ag net of Au credits from \$6.26 oz in the third quarter of 2014. Site all-in cost rose to \$15.18 per oz Ag net of Au credit in the third quarter of 2015 from \$12.23/oz per reported in the third quarter of 2014.

During the third quarter of 2015, the Company invested \$2.4 million in mine development versus \$1.7 million in 2014. The Company spent \$1.0 million for the purchase of property, plant and equipment in 2015 versus \$2.0 million in 2014. The Company spent \$0.8 million on exploration in both the 2014 and 2015 third quarters.

Nine months ended September 30, 2015, and September 30, 2014

Cerro Bayo mine produced 331,968 t of ore in 2015 versus 342,811 t in 2014. In addition, the mine completed 4,545 m of operating development in 2014 versus 5,021 m in the corresponding year-ago period. Mined grades were 1.70 g/t Au and 192.98 g/t Ag for the nine months ended September 30, 2015 versus 2.06 g/t Au and 249.75 g/t Ag for the corresponding nine months of 2014. Mining cost per tonne in 2015 was \$51.41/t, at par with \$51.84/t for the nine months ended September 30, 2014.

During the nine months ended September 30, 2015, the Cerro Bayo concentrator processed 338,922 t of ore with grades of 1.70 g/t Au and 191.42 g/t Ag. During the nine months ended September 30, 2014, the Cerro Bayo concentrator processed 318,155 t of ore with grades of 256.21 g/t Ag and 2.11 g/t Au. The plant achieved 86.50% recovery of Au and 90.35% recovery of Ag in 2015 versus 88.03% recovery of Au and 91.29% of Ag in 2014.

Cerro Bayo produced 5,243 dmt of concentrate containing 1,820,741 oz of saleable Ag and 15,671 oz of saleable Au in 2015. Production was 6,415 dmt of concentrate containing 2,308,331 oz of saleable Ag and

18,548 oz of saleable Au in 2014. Processing costs for the nine months ended September 30, 2015 were \$21.66/t, lower than the \$29.12/t during the nine months ended September 30, 2014.

During the nine months ended September 30, 2015, Cerro Bayo sold 6,170 dmt of concentrate, 18,635 oz Au and 2,155,652 oz Ag, more than the 5,859 dmt of concentrate, 16,384 oz Au and 2,080,435 oz Ag sold during the nine months ended September 30, 2014.

Total site cash operating cost per tonne of ore processed was \$83.62/t for the nine months ended September 30, 2015, versus \$99.96/t for the nine months of 2014. Cash cost per ounce Ag produced net of Au by-product credit was \$8.66 in 2015, higher than the \$5.87 in the nine months ended September 30, 2014. The all-in cost per oz Ag produced net of Au byproduct credit was \$15.85 in 2015, versus \$11.81 in 2014.

During the nine months ended September 30, 2015, the Company invested \$6.4 million in capital mine development versus \$5.5 million in 2014; \$3.7 million for purchase of property, plant and equipment versus \$6.1 million; and \$2.1 million for exploration in 2015 versus \$1.7 million in 2014.

Björkdal Results, Production, Sales and Costs for the three months ended on September 30, 2015

Mandalay acquired Björkdal on September 10, 2014. As a result, the comparative period for third quarter of 2015 covers the partial period of September 10, 2014 to September 30, 2014.

Björkdal financial results

During third quarter, Björkdal generated revenue of \$11.0 million as compared to \$4.0 million for the third quarter of 2014. Income from mine operations before depreciation and depletion was \$1.7 million versus \$0.7 million in third quarter of 2014. Adjusted EBITDA was \$1.7 million and net income after tax and operating net income was \$0.1 million in third quarter of 2015 as compared to \$0.7 million for adjusted EBITDA and \$0.2 million in net income after tax and operating net income in corresponding prior year period .

	Three months ended September 30, 2015 (\$'000)	Three months ended September 30, 2014 (\$'000)
Revenue	10,963	3,996
Cost of sales	9,288	3,340
Income from mine operations before depreciation and depletion	1,675	656
Depreciation and depletion	1,721	586
Income from mine operations	(46)	71
Administration	250	-
Adjusted EBITDA ⁽¹⁾	1,675	656
Finance costs, foreign exchange and others	94	(11)
Income/(loss) before tax	(390)	82
Current tax expense	(20)	(42)
Deferred tax expense (recovery)	(7)	(83)
Operating net income/(loss) after tax ⁽¹⁾	111	233
Net income/(loss) after tax	(363)	207
Capital expenditure ⁽²⁾	3,432	596

¹ Adjusted EBITDA and operating net income/(loss) after tax are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

² Includes capitalized depreciation on equipment.

Björkdal operating net income/(loss) after tax reconciliation to net income/(loss) after tax

	Three months ended September 30, 2015 (\$'000)	Three months ended September 30, 2014 (\$'000)
Net income/(loss) after tax	(363)	207
<u>Add: Intercompany expenses</u>		
Intercompany interest expense	-	26
Intercompany transfer pricing recharge costs	474	-
Operating net income/(loss) after tax	111	233

Björkdal operating statistics

The following table summarizes certain aspects of production, sales, costs and capital investment activities at Björkdal.

	Unit	Nine months ended September 30, 2015	Three months ended September 30, 2015	Period ended September 30, 2014	Three months ended June 30, 2015	Three months ended March 31, 2015
Mining Production and Mining Cost						
Operating development	m	3,591	1,051	338	1,084	1,456
Mined ore	t	960,498	336,546	72,969	320,258	303,694
Estimated Ore mined Au grade	g/t	1.35	1.29	1.26	1.39	1.39
Mined contained Au	oz	41,762	13,917	2,956	14,294	13,551
Mining cost per tonne ore	\$/t	18.71	17.20	19.12	19.13	19.94
Processing and Processing Cost						
Processed ore	t	970,407	333,972	79,008	318,088	318,347
Mill head grade Au	g/t	1.25	1.07	1.39	1.30	1.37
Recovery Au	%	88	87	89	88	90
Concentrate produced	dry t	2,325	656	176	724	944
Concentrate grade Au	g/t	449	463	553	493	406
Saleable Au produced	oz	33,574	9,761	3,091	11,494	12,319
Processing cost per tonne ore	\$/t	6.43	5.98	6.48	6.55	6.79
Sales						
Concentrate sold	dry t	2,302	659	269	732	911
Concentrate Au grade	g/t	452	463	387	504	401
Au sold	oz	33,438	9,815	3,294	11,873	11,750
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed ⁽¹⁾	\$/t	29.17	26.67	27.64	30.91	30.05
Site cash operating cost/tonne concentrate produced ⁽¹⁾	\$/t	12,175	13,577	12,397	13,573	10,127
Adjusted EBITDA/tonne ore milled ⁽¹⁾	\$/t	13.89	5.01	8.31	15	23
Adjusted EBITDA/tonne concentrate produced ⁽¹⁾	\$/t	5,796	2,553	3,727	6,397	7,589
Cash cost per oz Au equivalent produced ⁽¹⁾⁽²⁾	\$/oz	866	934	706	884	797
Site all-in cost/oz Au eq. oz produced ⁽¹⁾⁽³⁾	\$/oz	1,022	1,110	852	1,035	940
Capital Spending						
Capital development (Underground)	m	656	196	74	300	160
Capital development (Open pit)	t	1,400,910	270,554	107,204	576,564	824,346
Capital development cost	\$000	4,934	1,265	596	1,886	1,783
Capital purchases	\$000	3,430	1,155	-	1,503	772
Capitalized exploration	\$000	2,405	1,012	-	874	519

¹Does not include intercompany transfer pricing recharge costs and business development costs.

²The cash cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

³Site all-in cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

Three months ended September 30, 2015

During the third quarter, Björkdal produced a combined 336,546 t of ore from the open pit and underground operations, with an average grade of 1.29 g/t Au as compared to 72,969 t for third quarter of 2014 with average grade of 1.26 g/t. During the third quarter, 1,051 m of operating development were completed against 338 m in third quarter of 2014. The weighted average mining cost from the open pit and underground was \$17.20/t in third quarter 2015 against \$19.12/t in 2014.

During the third quarter of 2015, the Björkdal concentrator processed 333,972 t of ore with grades of 1.07 g/t Au against 79,008 t of ore with average grade of 1.39 g/t Au in 2014. Metallurgical recoveries during the third quarter of 2015 were 87% for Au against 89% in third quarter of 2014 as the Company continues

to review and implement optimal metallurgy processes inside the plant. Processing cost was \$5.98/t in 2015 as compared to \$6.48/t in 2014.

During the third quarter of 2015, Björkdal produced 9,761 oz saleable Au and sold 9,815 oz of Au. In the third quarter of 2014, Björkdal produced 3,091 oz salable Au and sold 3,294 oz of Au.

Total site cash operating cost was \$26.67/t of ore processed in third quarter of 2015 against \$27.64/t in 2014. Cash cost per oz Au was \$934 and all-in cost was \$1,110 in 2015 against \$706 and \$852 respectively in 2014.

During the third quarter of 2015, the Company invested \$1.3 million in mine development, \$1.1 million in property, plant and equipment and \$1.0 million in exploration. During the third quarter of 2014, the Company invested \$0.6 million in mine development.

Nine months ended on September 30, 2015

During the nine months ended September 30, 2015, Björkdal produced a combined 960,498 t of ore from the open pit and underground operations, with an average grade of 1.35 g/t Au as compared to 72,969 t for the post-acquisition period of 2014. During the nine months ended on September 30, 2015, 3,591 m of operating development were completed against 338 m for the post-acquisition period of 2014. Weighted average mining cost from the open pit and underground was \$18.71/t in nine months ended on September 30, 2015 against \$19.12/t for the post-acquisition period of 2014.

During the nine months ended September 30, 2015, the Björkdal concentrator processed 970,407 t of ore with grades of 1.33 g/t Au against 79,008 t of ore with average grade of 1.39 g/t Au for the post-acquisition period of 2014. Metallurgical recoveries during the nine months ended on September 30, 2015 were 89% for Au against 89% in the post-acquisition period of 2014. Processing cost was \$6.43/t in 2015 as compared to \$6.48/t in the post-acquisition period of 2014.

During the nine months ended on September 30, 2015, Björkdal produced 33,574 oz saleable Au and sold 33,438 oz of Au against which, in the post-acquisition period of 2014, Björkdal produced 3,091 oz salable Au and sold 3,294 oz of Au.

Total site cash operating cost was \$29.17/t of ore processed in the nine months ended on September 30, 2015, against \$27.64/t in 2014. Cash cost per oz Au was \$866 and all-in cost per oz was \$1,022 in 2015 against \$706/ oz and \$852/ oz, respectively, in 2014.

During the nine months ended September 30, 2015, the Company invested \$4.9 million in mine development, \$3.4 million in property, plant and equipment and \$2.4 million in exploration. During the post-acquisition period of 2014, the Company invested \$0.6 million in mine development.

Challacollo

During the third quarter of 2015, the Company spent \$0.3 million on exploration and feasibility study. Work completed to date by consultants on design of the underground mine, processing plant, tailing

storage and project infrastructure has been completed. The development options being evaluated for Challacollo consist of the following components:

- Underground mine with ramp access for longhole open stoping to produce 1,800 tpd mill feed;
- Processing plant with 3-stage crushing, single-stage milling, agitated cyanide leach circuit, Merrill Crowe plant to produce a silver-gold doré and tailing filtration to recover water and cyanide;
- The extensive metallurgical testing program confirmed cyanidation as the most appropriate method and silver recovery to doré of 93%;
- Dry stack tailing storage facility;
- On-site infrastructure support facilities, to include camp accommodation for up to 250 people during the operating phase;
- Electrical power supply via connection to the SING grid; and
- New site access road (15 km).

However, while the study has confirmed that water supply of 12 litres/second is required for the operation, and as of September 30, 2015, a suitable source of water has yet to be developed. Alternatives being evaluated include a well field on the property and off-site water sources. While developing the water source, the Company is planning key project optimization studies.

La Quebrada and Lupin

Spending on care and maintenance at La Quebrada and Lupin, both held for sale, was less than \$0.1 million during the third quarter of 2015. The corresponding amount for the prior year quarter was \$0.1 million.

Markets - Currency Exchange Rates

The average currency exchange rates for the reporting period are summarized in the table below.

CURRENCY	Average rate July 1, 2015 September 30, 2015	Average rate January 1, 2015 September 30, 2015	Average rate July 1, 2014 September 30, 2014	Average rate January 1, 2014 December 31, 2014
1A\$ = C\$	0.9490	0.9601	1.0065	0.9963
1A\$ = US\$	0.7253	0.7630	0.9244	0.9027
1 US\$ = C\$	1.3089	1.2600	1.0890	1.0557
1 US\$ = Chilean Peso	677	640	578	571
1 US\$ = SEK	8.4849	8.4146	6.9493	6.8399

The U.S. dollar has strengthened in relation to the Australian dollar, the Canadian dollar, the Chilean peso, and the Swedish Krona.

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices of Au, Ag, and Sb were lower in the third quarter of 2015 compared to the third quarter of 2014. Realized prices were impacted by the application of adjustments with respect to open concentrate shipments at forward prices (see "Critical Accounting Policies - Revenue recognition" below).

This resulted in realized prices in the third quarter of 2015 being marginally higher than relative average market prices.

COMMODITY	Average rate July 1, 2015 September 30, 2015	Average rate January 1, 2015 September 30, 2015	Average rate July 1, 2014 September 30, 2014	Average rate January 1, 2014 December 31, 2014
Realized gold US\$/oz ¹	1,109	1,195	1,224	1,253
Gold- US\$/oz - Average London Daily PM close (Metal Bulletin)	1,125	1,178	1,281	1,265
Realized antimony US\$/tonne ¹	6,053	7,422	9,090	9,341
Antimony US\$/tonne - Rotterdam Warehouse (Metal Bulletin)	6,894	7,866	9,405	9,440
Realized silver price US\$/oz ¹	14.16	15.93	15.43	17.87
Silver US\$/oz - Average London Daily PM close (Metal Bulletin)	14.93	16.00	19.76	19.07

¹Includes the effect of prior period smelter revenue adjustment on sales revenue and realized prices for the period.

1.5 SUMMARY OF QUARTERLY RESULTS

The following information is derived from the Company's quarterly financial statements for the past eight quarters.

Particulars	September 30, 2015 (\$'000)	June 30, 2015 (\$'000)	March 31, 2015 (\$'000)	December 31, 2014 (\$'000)
Revenue	43,282	50,793	56,779	66,973
Income/(loss)	2,180	5,073	12,484	7,588
Income/(loss) per share - Basic	0.00	0.01	0.03	0.02
Income/(loss) per share - Diluted	0.01	0.01	0.03	0.02

Particulars	September 30, 2014 (\$'000)	June 30, 2014 (\$'000)	March 31, 2014 (\$'000)	December 31, 2013 (\$'000)
Revenue	34,676	44,888	38,092	39,058
Income/(loss)	(692)	4,936	5,744	4,435
Income/(loss) per share - Basic	(0.00)	0.01	0.02	0.01
Income/(loss) per share - Diluted	(0.00)	0.01	0.02	0.01

Since the acquisition of the Costerfield mine in December, 2009, and of the Cerro Bayo mine in August, 2010, and now the Björkdal mine in September, 2014, the Company's results have been, and are expected to continue to be, influenced by the operational results of the Costerfield, Cerro Bayo and Björkdal mines. Financial results are impacted by the levels of Au, Ag, and Sb production, the costs associated with that production and the prices received for metal in concentrate. Metal prices are determined using prevailing international prices for Au, Ag, and Sb. The Company's products are priced in U.S. dollars, whereas the majority of mine costs are in Australian dollars (at Costerfield), Chilean pesos (at Cerro Bayo) and Swedish Krona (at Björkdal). The Company's results are impacted by exchange rate variations during the reporting periods.

The general trend of increasing metal sales volumes with time represents the ramp-up of Costerfield production under Mandalay ownership and the acquisition, restart, and ramp-up of the Cerro Bayo mine and the acquisition of the Björkdal mine. Volatility in revenue and earnings over the past two years is due to the combined impact of changes in volumes, fluctuations in metal prices, currency fluctuations and timing of concentrate shipments.

1.6 LIQUIDITY, SOLVENCY AND USES OF CASH

At September 30, 2015, the Company had working capital of \$24.5 million compared to \$24.9 million at December 31, 2014. Had the five year exchangeable loan been classified as long term debt, working capital would have been \$79 million as of September 30, 2015. The Company had cash and cash equivalents of \$50 million at September 30, 2015, as compared to \$49 million at December 31, 2014.

In the future, the Company expects to continue to fund operational requirements through a combination of internally generated cash flow, sales of non-core assets, joint venture arrangements for its projects, debt offerings and equity financing.

The Company continuously reviews operational results, expenditures and additional financial opportunities in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining or increasing production levels at its current operations.

1.7 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

Five year 5.875% debt financing

In May, 2014, the Company borrowed \$60 million in a five-year loan at an interest rate of 5.875% from Gold Exchangeable Limited (“GEL”), an unaffiliated special purpose vehicle incorporated in Jersey.

GEL raised the financing proceeds by way of a concurrent offering of five-year senior exchangeable bonds (the “Bonds”) issued by Gold Exchangeable Limited (the “Issuer”), an unaffiliated special purpose vehicle incorporated in Jersey. The Company, through its wholly owned subsidiary Mandalay Resources Finance Limited (the “Borrower”), borrowed the proceeds of the Bond offering from the Issuer under the terms of a loan agreement and related funding agreement (the “Loan”) which together mirror the principal terms of the Bonds.

Beginning on June 23, 2014, each Bondholder has the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust (“Gold Shares”) based on the then applicable exchange price. The initial exchange price is \$149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of \$1,556 per ounce.

The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which NAV of the SPDR Gold Trust or Gold Shares is calculated.

If a Bondholder exercises its exchange rights, GEL will give notice to the Borrower, and the Borrower will be required to deliver the requisite number of Gold Shares to the Bondholder.

As security for its obligations under the Bonds, GEL will be required to deposit into a custody account, in quarterly instalments over the fourth and fifth years of the term of the Bonds, the aggregate number of Gold Shares issuable upon exchange of the Bonds. Pursuant to the terms of the Loan, the Borrower will have to provide such Gold Shares to GEL.

The performance of the Borrower's obligations under the Loan is guaranteed by the Company. This guarantee is secured by second ranking pledge of all of the shares of Mandalay Resources Australia Pty Limited, which owns and operates Costerfield.

GEL may redeem the Bonds at its option:

- any time after June 13, 2017, if the closing price of the Gold Shares exceeds 130% of the exchange price for at least 20 trading days in any 30 consecutive trading day period; or
- any time, if \$9 million or less principal amount of the Bonds remains outstanding.

The Borrower has equivalent redemption rights with respect to the Loan. If the Borrower exercises its redemption rights under the Loan, the Issuer will exercise its optional redemption rights under the Bonds.

The maturity date of the Loan is May 13, 2019. However, because the Bondholders have the right to exercise their exchange rights any time after June 23, 2014 (which would trigger a requirement for GEL to exercise its parallel exchange rights under the Loan), the Company has classified the Loan balance as a current liability. IFRS requires that the Company ignore the probability that holders will elect to convert in the next 12 months, even if the Company assesses such probability as remote. However, if holders did elect to convert the debt as of September 30, 2015, the Company would realize a gain of \$11.7 million and the holders of the debt would realize a loss of \$17.0 million based on the principal value of \$60 million.

A summary of the loan balance, for accounting purposes, as at September 30, 2015 is as follows:

For clarity, the Company has provided some examples below to further explain the details of the Loan agreement, all of which exclude the interest that is payable on the principal until the date of redemption or maturity at the rate of 5.875%:

- i) If all the bondholders were to exercise their right to redeem any time before the maturity date and assuming September 30, 2015, at a gold price of \$1,114/oz (which is equivalent to US\$106.86 per Gold Share), then the repayment cost to the Company will be approximately \$43 million.

$$\$60 \text{ million} \div \$1,556/\text{oz} \times \$1,114 = \$43.0 \text{ million}$$

- ii) The repayment cost to the Company to repay the Loan on maturity will be a minimum of \$60 million.

- iii) If the average price of gold during the escrow period is \$1,700/oz (which is equivalent to US\$ 163.07 per Gold Share) then repayment cost to the Company will be \$65.6 million.

$$\$60 \text{ million} \div \$1,556/\text{oz} \times \$1,700 = \$65.6 \text{ million}$$

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

The Company had no related party transactions.

1.10 CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to, the recoverability of trade and other receivables, measurement of revenue and trade receivables, the proven and probable ore reserves and resources of mining properties and the related depletion and amortization amounts, the estimated tonnes of waste material to be mined and the estimated recoverable tonnes of ore from each mine area, the assumptions used in the accounting for stock-based compensation, valuation of warrants, the provision for income and mining taxes and composition of future income and mining tax assets and liabilities, the expected economic lives of and the estimated future operating results and net cash flows from mining interests, the anticipated costs of reclamation and other closure cost obligations, the fair value measurement of derivative financial instruments and silver note, and the fair value of assets and liabilities acquired in business combinations.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of metals is recognized when all of the following conditions are satisfied:

- the significant risks and rewards of ownership have been transferred to the purchaser;
- the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the metals sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

Sales of certain commodities are provisionally priced such that the price is not settled until a pre-determined future date based on the market price at that time. Revenue on these sales is initially recognized (when the above criteria are met) at the current market price. Provisionally priced sales are marked to market at each reporting date using the forward price for the period equivalent to that outlined in the contract. This mark-to-market adjustment is recognized in revenue.

Inventories

Finished goods, work-in-process and stockpiled ore are valued at the lower of average production cost or net realizable value. Production costs include the cost of raw materials, direct labor, mine-site overhead expenses and depreciation and depletion of mining interests. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future production costs to convert the inventories into saleable form and the costs necessary to make the sale.

In-process inventory represents materials that are currently in the process of being converted into finished goods. The average production cost of finished goods represents the average cost of in-process inventories incurred prior to the refining process, plus applicable refining costs and associated royalties.

Supplies are valued at the lower of average cost and net realizable value.

The estimates and assumptions used in the measurement of work-in-process inventories include saleable ounces of gold, silver and antimony and the gold, silver and antimony prices to be realized when the metal is sold. If these estimates or assumptions prove to be inaccurate, the Company could be required to write down the carrying amounts of its work-in-process inventories, which would reduce the Company's earnings and working capital.

Property, plant and equipment

Exploration and Evaluation

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized within property, plant and equipment.

The Company records its capitalized exploration and evaluation at cost. The capitalized cost is based on cash and the value of share considerations paid for the property and exploration costs incurred on the property. The recorded amount does not reflect recoverable values as this will be dependent on the results of exploration and development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

All costs related to the acquisition, exploration and evaluation of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are moved into development or production, sold, or management has determined there to be an impairment of the value.

Management reviews the carrying value of capitalized exploration and evaluation costs at least annually. In the case of undeveloped projects, there may be only Inferred Resources or perhaps just pre-resource exploration data to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped property. In some cases, the undeveloped properties are regarded as successors to ore bodies currently in production. Where this is the case, it is intended that these will be developed and be put into production when the current source of ore is exhausted or to replace the reduced output.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are second tested for impairment and then reclassified to mining interests within property, plant and equipment.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all unrecoverable costs associated with the project are written off.

Mining Interests

Mining interests represent capitalized expenditures related to the development of mining properties, acquisition costs, capitalized borrowing costs, expenditures related to exploration and evaluation transferred in and estimated site closure and reclamation costs.

Capitalized costs are depleted using the unit-of-production method over the estimated economic life of the mine to which they relate.

Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation and impairment charges.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

Depreciation

Mining interests are depreciated using the unit-of-production method based on the estimated total recoverable metal contained in proven and probable reserves or proven, probable and measured and indicated resources, depending on the nature of the ore body, at the related mine when the production level intended by management has been reached.

The production level intended by management is considered to be reached when operational commissioning of major mine and plant components is completed, operating results are being achieved consistently for a period of time and there are indicators that these operating results will be sustained. Other factors include one or more of the following:

- a significant utilization rate of plant capacity has been achieved;
- a significant portion of available funding is directed towards operating activities;
- a pre-determined, reasonable period of time of stable operation has passed; and

- a development project significant to the primary business objective of the Company has been completed and significant milestones have been achieved.

Management reviews the estimated useful lives, residual values and depreciation methods of the Company's property, plant and equipment at the end of each reporting period and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

Plant and equipment cost is depreciated using the straight-line method or diminishing-balance method over their estimated useful lives if their lives are shorter than the mine life; otherwise they are depreciated on the unit-of-production basis.

Site closure and reclamation cost obligations

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate. The liability is recognized at the time environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for site closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports prepared by third party industry specialists and discounted at a pre-tax rate specific to the liability. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

Changes in site closure and reclamation estimates are accounted for as a change in the corresponding capitalized cost.

Costs of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred, most of which are incurred at the end of the life of mine.

Reserve estimates

The Company estimates its ore reserves and mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101 - Standards for Disclosure of Mineral Projects ("NI 43-101"). Reserves are used in the calculation of depreciation and amortization, impairment assessment, assessment of life of mine stripping ratios and for forecasting the timing of payment of mine closure, reclamation and rehabilitation costs.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

Income taxes

The Company uses the liability method of accounting for income taxes. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income and on the carry forward of tax losses and tax credit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

For subsidiaries, the Company recognizes a deferred tax asset for deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. The Company recognizes a deferred tax liability for taxable temporary differences associated with investments in subsidiaries, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

1.11 FINANCIAL INSTRUMENTS

General

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, reclamation and other deposits, derivative financial instruments, trade and other payables. The Company

also periodically uses financial instruments to protect itself against future downward fluctuations in the prices of gold, silver and antimony and against currency exchange rate fluctuations. See “Hedging Activities” below.

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The Company has credit risk which is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company’s accounts receivable and derivative financial instruments. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. As at September 30, 2015, the Company had no past overdue trade receivables.

The Company invests its excess cash principally in highly rated government and corporate debt securities. The Company has established guidelines related to diversification, credit ratings and maturities that maintain safety and liquidity. These guidelines are periodically reviewed by the Company’s audit committee and modified to reflect changes in market conditions.

The Company is subject to interest rate risk on its cash and cash equivalents and believes that its results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short-term nature of the investments. Excess cash is invested in highly rated investment securities at fixed interest rates with varying terms to maturity but generally with maturities of three months or less from the date of purchase.

The Company reports its financial statements in U.S. dollars; however, the Company has extensive operations in the Australia, Chile and Sweden. As a consequence, the financial results of the Company’s operations as reported in U.S. dollars are subject to changes in the value of the U.S. dollar relative to the Australian dollar, Chilean peso Swedish krona. The Company has at times entered into foreign exchange hedges to limit exposure to exchange rate fluctuations. The Company’s management assesses the Company’s strategy towards its foreign exchange rate risk as needed, depending on market conditions.

Hedging Activities

The Company’s earnings and cash flows are subject to price risk due to fluctuations in the market prices of antimony, gold and silver. World antimony, gold and silver prices have historically fluctuated widely, being affected by numerous factors beyond the Company’s control, including:

- the strength of the U.S. economy and the economies of other industrialized and developing nations;
- global or regional political or economic crises;
- the relative strength of the U.S. dollar and other currencies;
- expectations with respect to the rate of inflation;
- interest rates;
- purchases and sales of gold and silver by central banks and other holders;
- demand for jewelry containing gold and silver;
- industrial demand for antimony (mostly for flame retardants) versus supply, largely controlled by China; and
- Investment activity, including speculation, in gold and silver as commodities.

The Company occasionally purchases derivative financial instruments to protect itself against future downward fluctuations in the prices of gold, silver and upward fluctuations in oil prices.

1.12 OTHER MD&A REQUIREMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

I. Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. During the fourth quarter of 2011, the Company finished implementing Sage AccPac Enterprise Resource Planning (ERP) software to strengthen internal control and reporting. Sage AccPac implementation combined with improvements in the monthly close process provides information to the senior management for appropriate decision making.

II. Internal Controls and Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 for the quarter ended September 30, 2015. The Company's controls include policies and procedures that:

- relate to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the design and operational effectiveness of the Company's internal control over financial reporting using the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

With the help of Sage AccPac ERP system that the Company implemented in 2011, the Company has been implementing complete segregation of duties. It has appointed KPMG to conduct an internal audit review of the Company. This is designed to further identify any gaps in internal control procedures and help create internal policy documents as necessary.

The table below is a summary of key internal control issues, their potential impact and the actions the Company is taking to remedy:

Internal control weakness	Potential impact of the weakness on the issuer's financial reporting and its ICFR	Current plan or actions being undertaken for remediating the potential material weakness
Segregation of duties	Accuracy and possible fraud	KPMG are the internal auditors since 2011. Management has documented and taken adequate corrective actions to address the issues identified by auditors in each financial year.
Collusion	Financial loss to the Company	
		<p>The areas being covered during 2015 internal audit would be related to the following broad categories:</p> <ul style="list-style-type: none"> • Financial and management reporting, particularly in newly acquired Bjorkdal mines. • Health, safety and environment.

III. Limitation of Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur due to simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

1.13 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 410,419,979 common shares issued and outstanding. The weighted average number of shares outstanding during the third quarter used for the calculation of per share results was 409,194,843.

Outstanding incentive stock options that could result in the issuance of additional common shares at the respective dates as of the date of this MD&A are as follows:

Exercise Price CND\$	As of September 30, 2015	As of November 5, 2015	Expiry Date
\$0.91	4,820,000	4,820,000	Mar 24, 2020
\$0.93	100,000	100,000	Nov 6, 2019
\$0.98	4,065,000	4,045,000	Mar 24, 2019
\$1.13	3,542,500	3,542,500	Mar 18, 2018
\$0.83	3,572,500	3,572,500	Mar 9, 2017
\$0.70	250,000	250,000	Dec 2, 2016
\$0.76	50,000	50,000	Jul 4, 2016
\$0.58	370,000	370,000	Apr 11, 2016
\$0.56	2,712,500	2,687,500	Mar 11, 2016
Total	19,482,500	19,437,500	

During the quarter ended September 30, 2015, 380,000 options were exercised. There were 19,482,500 options outstanding as of September 30, 2015, which could result in issuance of shares.

During 2013, the Company adopted a Restricted Share Unit Plan (the "RSU Plan") and granted Restricted Share Units ("RSUs") to certain directors. Under the RSU Plan, those directors granted RSUs receive the Company's common shares at no cost at the end of vesting periods. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company's dividend declarations during the vesting period. The number of RSUs as at September 30, 2015, is as follows:

	Number of RSU's
Balance, December 31, 2014	211,004
Granted	313,672
Redeemed	(109,577)
Outstanding at September 30, 2015	415,099

1.14 QUALIFIED PERSONS

Disclosures of a scientific or technical nature in this MD&A in respect of each of the Company's material mineral resource properties were prepared by, or under the supervision of, the "qualified persons" (as that term is defined in NI 43-101) listed below:

Project	Qualified Person	Relationship to Mandalay Resources
Costerfield	Chris Gregory	Employee
Björkdal	Chris Gregory	Employee
Cerro Bayo	Scott Manske	Employee
Challacollo	Scott Manske	Employee
La Quebrada	Scott Manske	Employee

1.15 FORWARD LOOKING STATEMENTS

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mining industry risks; fluctuations in the market price of mineral commodities; project development; expansion targets and operational delays; environmental risks and hazards; requirement of additional financing; health and safety; uncertainty as to calculations of mineral deposit estimates; marketability; licenses and permits; title matters; governmental regulation of the mining industry; current global financial conditions; currency risk; uninsured risks; competition; repatriation of earnings; properties without known mineral reserves; dependence upon key management personnel and executives; dependence on major customers; infrastructure; litigation; potential volatility of market price of common shares; possible conflicts of interest of directors and officers of the Company; risk of dilution; payment obligations relating to properties; instability of political and economic environments; and integration of acquisitions. Specific reference is made to the Annual Information Form for a discussion of some of the factors underlying forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

1.16 NON-IFRS MEASURES

Non-IFRS performance measures are included in this MD&A because the Company believes these are useful indicators to discuss and understand performance of the Company and its operations. These performance measures do not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. These non-IFRS performance measures should not be considered in isolation as a substitute for measures of performance in accordance with IFRS.

Management uses adjusted EBITDA, income after tax from underlying operations and operating net income/(loss) after tax as measures of operating performance to assist in comparing the Company's ability to generate liquidity through operating cash flow to fund future working capital needs and fund future capital expenditures and to assist in measuring financial performance from period to period on a consistent basis. The Company believes that these measures are used by and are useful to investors and other users of the Company's financial statements in evaluating the Company's operating and cash performance because they allow for analysis of its financial results without regard to special, non-cash and other non-core items, which can vary substantially from company to company and over different periods.

The Company presents "cash cost" and "all-in costs" metrics for its gold and silver production because it believes that these measures assist investors and other users of the Company's financial statements in understanding the economics of the Company's gold and silver mining activities. Management also uses these metrics to assess Company's ability to meet short and long term financial objectives.

1. *Adjusted EBITDA*- The Company defines adjusted EBITDA as earnings before interest, taxes, non-cash charges/ (income) and finance costs. Refer to page 13 for reconciliation between adjusted EBITDA and net income.
2. *Income after tax from underlying operations*- The Company defines Income from underlying operations as net income after tax excluding non-cash, non-operating expense related to mark-to-market adjustment of currency option, financing warrants, silver and gold put options, silver note and deferred tax expense or recovery. Refer to page 15-16 for reconciliation between income from underlying operations and income from operations.
3. *Operating net income/(loss) after tax*- The Company defines operating net income/(loss) after tax as net income after tax before non-operating items such as intercompany interest expenses and all intercompany transfer pricing recharge costs. Refer to pages 18, 22 and 26 for reconciliation between operating net income after tax and net income after tax.
4. *Cash cost per ounce of gold equivalent produced*- Equivalent gold ounces produced is calculated by adding to gold ounces produced, the antimony tonnes produced times the average antimony price in the period divided by the average gold price in the period. The total cash operating cost associated with the production of these equivalent ounces produced in the period is then divided by the equivalent gold ounces produced to yield the cash cost per equivalent ounce produced. The cash cost excludes royalty expenses.
5. *Site all-in cost per ounce of gold equivalent produced*- Site all-in costs include total cash operating costs, royalty expense, depletion, depreciation, accretion and write-off of exploration and

evaluation. Equivalent gold ounces produced is calculated by adding to gold ounces produced, the antimony tonnes produced times the average antimony price in the period divided by the average gold price in the period. The site all-in cost is then divided by the equivalent gold ounces produced to yield the site all-in cost per equivalent ounce produced.

6. *Cash cost per ounce of silver produced net of gold byproduct credit*- The cash cost per silver ounce produced net of gold byproduct credit is calculated by deducting the gold credit (which equals ounces gold produced times the realized gold price in the period) from the cash operating costs in the period and dividing the resultant number by the silver ounces produced in the period. The cash cost excludes royalty expenses.
7. *Site all-in cost per ounce of silver produced net of gold byproduct credit*- The site all-in cost per silver ounce produced net of gold byproduct credit is calculated by adding royalty expenses, depletion, depreciation, accretion and write-off of exploration and evaluation to the cash cost net of gold byproduct credit as calculated in note 6 above and dividing the resultant number by the silver ounces produced in the period.